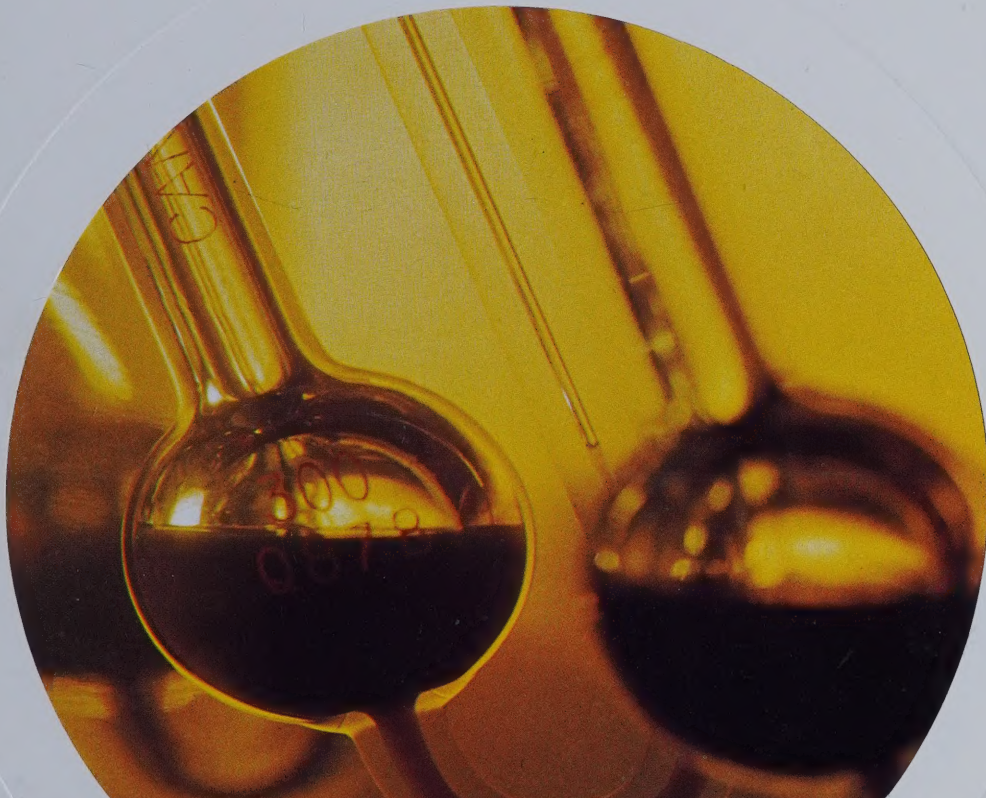
Corp report

FINNING

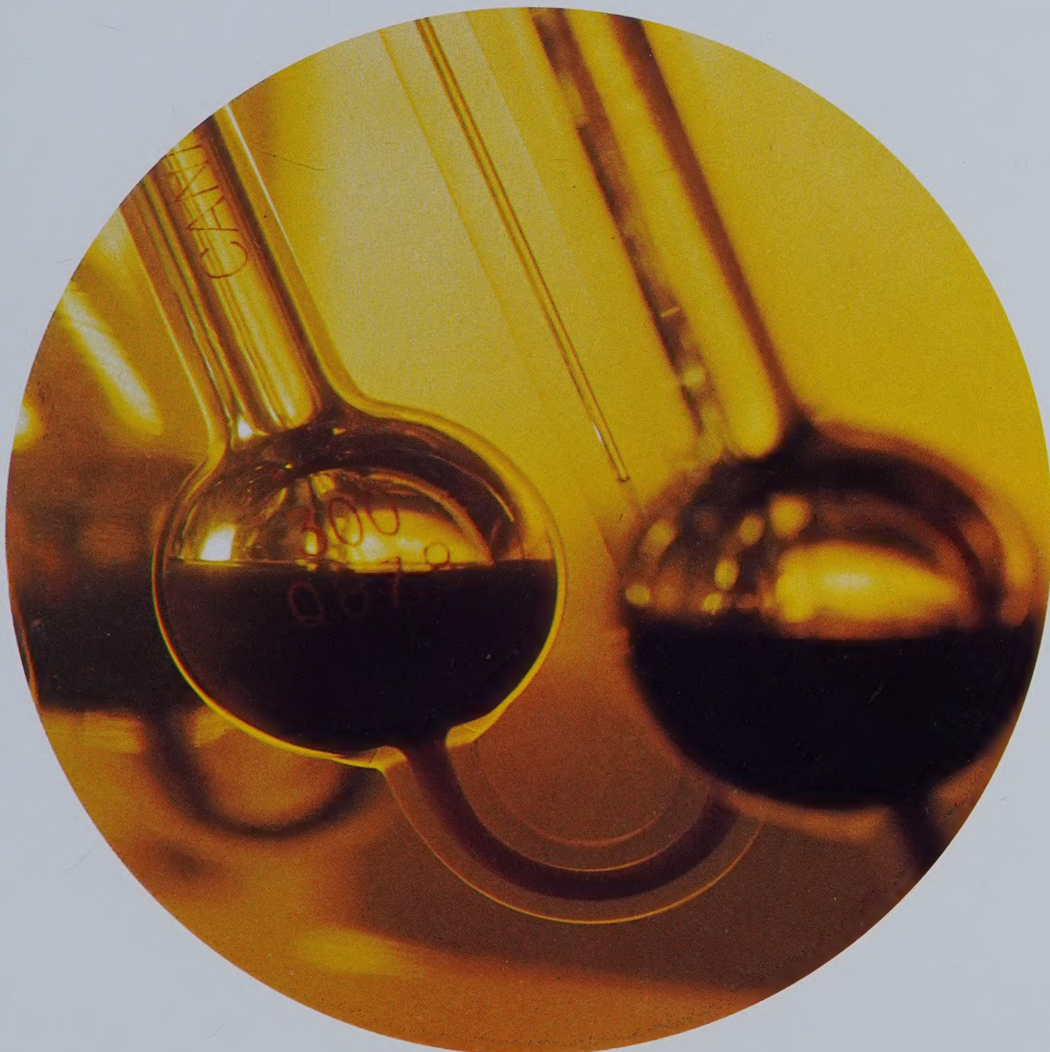
ANNUAL REPORT 1970



FINNING TRACTOR & EQUIPMENT COMPANY LIMITED

The company scored a sophisticated first in the industry when an in-plant Scientific Wear Analysis Laboratory was set up. An atomic absorption spectrophotometer and other test equipment analyzes metals content in used oil. Results indicate wear of internal machine components, signal future problems or failure so preventive action can be taken.

ANNUAL REPORT 1970



FINNING TRACTOR & EQUIPMENT COMPANY LIMITED

Towboat powered with twin Caterpillar diesel engines hauls bargeload of aggregate down Fraser River to processing plant. Cat marine engines and smaller Perkins diesels power wide range of work boats, fish boats and pleasure craft.

HIGHLIGHTS OF OPERATIONS

	1970	1969	1968	1967	1966
	(Thousands of dollars)				
Revenue	$74,092	$78,584	$55,413	$49,508	$45,514
Income before income taxes	4,867	5,671	3,838	3,159	1,829
Net income	2,384	2,772	1,812	1,681	967
Capital expenditures	1,630	1,985	1,671	412	847
Net income per share*	$ 1.23	$ 1.43	$ .93	$ .86	$ .50
Net income as a percentage of revenue	3.2%	3.5%	3.3%	3.4%	2.1%
Number of employees at year end	1,011	1,207	894	765	750

**Based on 1,944,000 Common Shares outstanding at December 31, 1970*

FINNING TRACTOR & EQUIPMENT COMPANY LIMITED

OFFICERS

W. MAURICE YOUNG, *President*
RICHARD E. LANE, *Executive Vice-President*
ROBERT C. BISS, *Vice-President Parts & Service*
JOHN D. FRAZEE, *Vice-President Sales*
VINOD K. SOOD, *Vice-President Finance*
RONALD W. PARK, *Secretary*

HEAD OFFICE

555 GREAT NORTHERN WAY, VANCOUVER 10, CANADA

AUDITORS

ARTHUR ANDERSEN & CO.
Chartered Accountants, Vancouver, Canada

SOLICITORS

LADNER, DOWNS, LADNER, LOCKE, CLARK AND LENOX
Barristers and Solicitors, Vancouver, Canada

REGISTRAR AND TRANSFER AGENT

CANADA PERMANENT TRUST COMPANY
Vancouver, Calgary, Winnipeg, Toronto and Montreal

STOCK EXCHANGES

VANCOUVER AND TORONTO STOCK EXCHANGES

BOARD OF DIRECTORS

"A personal sense of responsibility to the customer is always present."

TO THE SHAREHOLDERS

We have now completed our first full year as a public company.

As reported at March 31, 1970, first quarter sales were up 25% over the comparable period of 1969. But this volume did not continue and the drop in the second and third quarters was indeed abrupt. Sales for the year amounted to $74,100,000 with a net profit after tax of $2,384,000, compared to $78,600,000 in sales with a net profit after tax of $2,772,000 in 1969. This represents a sales decrease of 6% and a net profit decrease of 14%. Earnings per share were $1.23 as against $1.43 the previous year.

The number of employees was reduced from 1,207 to 1,011. In the first quarter we were staffed to meet a forecast increase in sales volume which did materialize but did not continue through the balance of the year, due to strikes and lockouts and a general weakening of the economy.

In our first Annual Report I explained the necessity of training our own personnel and I stated that shareholders must look upon expenditures for training as a continuing cost of doing business. A significant development in this area came recently when Canada Manpower awarded us a contract to train or retrain unemployed people in basic and specialized mechanical skills. This is concrete recognition of the job we have done with our in-plant training program.

Although our net profit declined during the year, I feel we exhibited an ability to withstand adversity. This is primarily due to our operating philosophy. We believe that in the heavy equipment distribution business, the customer is best served when personal contact is maintained. Product application skills are sharpened and a personal sense of responsibility to the customer is always present.

In accord with this belief, we have created an organization whereby Finning is really a group of individually managed units. These units consist of our product divisions, our branches and our depots. Each is organized to serve individual customers with a specialized product line or service and to provide this service within a localized geographical area. They are able to take maximum advantage of the financial capability of the company as a whole and the efficiencies and economies of the centralized data processing system.

Finning is a British Columbia company. For convenience we tend to refer to our operations outside of Vancouver as "branches", but they are not such in the pure sense of the word. Each is largely autonomous, established to provide customers in a particular territory with our complete line of products and services. Instead of referring to our "Prince George Branch", for example, we should refer properly to "Finning, Prince George" and the same applies to each of our other 32 operations.

This policy and its resultant individual relationship between our customers and our personnel in divisions, branches and depots is the reason for our ability to adjust to what was a difficult, challenging year.

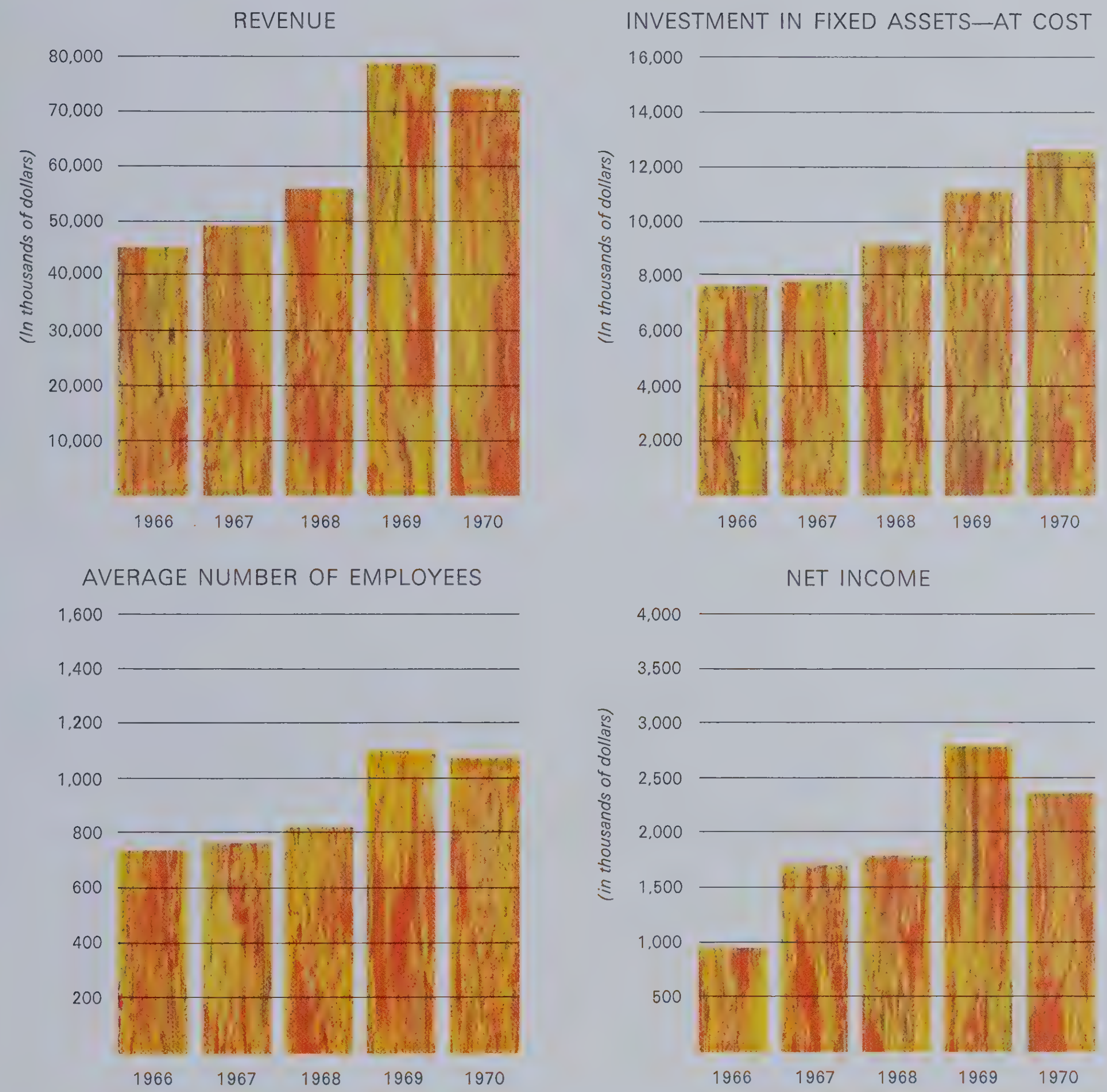
Sales forecasts and market analyses indicate a reasonable upturn in the economy in 1971. If the prevailing mood of cautious optimism bears true, we can expect an increase in business activity and a return to more profitable levels.

W. M. Young

W. M. YOUNG,
President.

Caterpillar D8 Tractor dozes shot rock at an open pit copper mine in the Interior. Crawler tractors are the backbone of most earthmoving projects and there are more D8s in the province than any other size or make.

FINNING TRACTOR & EQUIPMENT COMPANY LIMITED



ASSETS	1970	1969
CURRENT ASSETS:		
Cash	$ 103,206	$ 11,675
Notes and accounts receivable *(Note 3)*—		
Instalment notes, at principal balances, including $2,584,313 ($1,346,392 in 1969) due after one year	7,594,050	4,477,617
Accounts receivable	8,859,089	8,924,618
Income taxes recoverable	—	282,985
Inventories, at the lower of cost or market *(Note 2)*—		
Equipment—partially pledged	15,488,815	11,941,286
Parts and supplies	8,928,554	7,528,171
Total current assets	$40,973,714	$33,166,352
EQUIPMENT LEASED TO CUSTOMERS, at cost less accumulated depreciation of $7,621,846 ($7,482,274 in 1969) *(Note 3)*	$13,097,910	$17,428,184
FIXED ASSETS, at cost *(Notes 3 and 4)*:		
Land	$ 844,181	$ 697,730
Buildings and equipment	11,648,759	10,373,012
	$12,492,940	$11,070,742
Less—Accumulated depreciation	4,765,152	4,074,175
	$ 7,727,788	$ 6,996,567
OTHER ASSETS, at cost	$ 56,697	$ 252,690
	$61,856,109	$57,843,793

Approved on behalf of the Board:
"W. M. Young", *Director*
"V. K. Sood", *Director*

ALANCE SHEETS

970 and 1969

LIABILITIES	1970	1969
CURRENT LIABILITIES:		
Notes payable—		
Bank *(Note 3)*	$19,543,715	$21,400,914
Other—secured	2,613,987	1,026,888
Accounts payable and accruals	5,628,934	5,328,225
Income taxes	1,107,000	—
Current portion of long-term debt	1,718,767	1,774,982
Total current liabilities	$30,612,403	$29,531,009
LONG-TERM DEBT, less current portion *(Note 4)*	$ 5,636,758	$ 5,501,721
DEFERRED INCOME TAXES	$ 4,755,370	$ 4,051,933
SHAREHOLDERS' EQUITY:		
Share capital *(Note 6)*—		
Common Shares, without par value—		
Authorized 5,000,000 shares;		
Outstanding 1,944,000 shares, 1970 and 1969	$ 8,564,887	$ 8,564,887
Retained earnings *(Note 7)*—		
Balance, beginning of year	$10,194,243	$ 7,421,801
Net income	2,384,048	2,772,442
Dividends paid—$.15 per share	(291,600)	—
Balance, end of year	$12,286,691	$10,194,243
	$20,851,578	$18,759,130
	$61,856,109	$57,843,793

CONSOLIDATED STATEMENTS OF INCOME

for the years ended December 31, 1970 and 1969

	1970	1969
REVENUE	$74,092,035	$78,583,909
EXPENSES *(Note 9)*:		
Cost of sales and selling expenses	$62,244,731	$67,037,077
General and administrative	4,411,502	3,836,210
Interest—Current	2,060,776	1,666,670
Long-term	507,984	372,510
	$69,224,993	$72,912,467
Income before income taxes	$ 4,867,042	$ 5,671,442
PROVISION FOR INCOME TAXES	2,482,994	2,899,000
Net income	$ 2,384,048	$ 2,772,442
NET INCOME PER SHARE *(Note 10)*	$ 1.23	$ 1.43

CONSOLIDATED STATEMENTS OF SOURCE AND APPLICATION OF FUNDS

for the years ended December 31, 1970 and 1969

	1970	1969
SOURCE OF FUNDS:		
From operations—		
Net income	$ 2,384,048	$ 2,772,442
Add charges not requiring the outlay of funds—		
Depreciation—		
Equipment leased to customers	4,336,301	4,201,307
Fixed assets	824,210	698,244
Deferred income taxes	703,437	2,323,788
Total funds from operations	$ 8,247,996	$ 9,995,781
Issue of share capital—		
On conversion of subordinated note payable to Common Shares	—	3,534,274
By public subscription	—	5,048,400
Increase in long-term debt	135,037	768,426
Sale of fixed assets	74,299	68,347
Other	195,993	—
	$ 8,653,325	$19,415,228
APPLICATION OF FUNDS:		
Additions—		
Equipment leased to customers, net of disposals	$ 6,027	$14,035,762
Fixed assets	1,629,730	1,985,095
Retirement and conversion to Common Shares of subordinated note payable	—	4,994,540
Dividends paid	291,600	—
Other	—	104,281
	$ 1,927,357	$21,119,678
Increase (decrease) in working capital	$ 6,725,968	$ (1,704,450)
WORKING CAPITAL, BEGINNING OF YEAR	3,635,343	5,339,793
WORKING CAPITAL, END OF YEAR	$10,361,311	$ 3,635,343

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1970

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the assets, liabilities and results of the operations of the wholly-owned subsidiary, Finning Tractor (1959) Ltd.

2 INVENTORIES

Inventory cost is on a specific item actual cost basis for equipment and a first-in, first-out basis for parts and supplies. Net realizable value has been used to determine market

3 NOTES PAYABLE—BANK

These notes are payable on demand and are secured by the pledge of notes and accounts receivable and equipment lease agreements. In addition, the bank holds $10,000,000 Demand Debentures as collateral security These debentures are secured by a trust deed on the same basis as, but ranking next in priority to, the First Mortgage Debentures.

4 LONG-TERM DEBT

Long-term debt comprises

	1970	1969
First Mortgage Debentures......	$3,800,000	$4,400,000
Other first mortgages.	529,050	533,186
Other secured agreements......	221,475	—
Note payable.......	2,805,000	2,343,517
	$7,355,525	$7,276,703
Less—Current portion included in current liabilities.........	1,718,767	1,774,982
	$5,636,758	$5,501,721

The First Mortgage Debentures bear interest at 7¼% and are payable at $600,000 per annum from 1971 to 1975 with the balance due in 1976. They are secured by a trust deed which constitutes a first fixed charge on substantially all the fixed assets of the Company and on all the shares of its subsidiary, Finning Tractor (1959) Ltd., and by a floating charge on the undertaking, property and assets of the Company and Finning Tractor (1959) Ltd., and are guaranteed by Finning Tractor (1959) Ltd.

Other first mortgages on certain land and buildings bear interest from 7% to 10½% per annum. Combined annual payments, including principal and interest, total $90,970. Maturity dates of the various first mortgages range from 1974 to 1995

Other secured agreements bear interest from 7% to 9½% per annum Combined annual principal payments total $47,734 and maturity dates range from 1973 to 1978 Also included in other secured agreements are loans against the cash surrender values of life insurance policies, bearing interest at 6% per annum, with no specific repayment terms

The note payable bears interest at 9¼% and is secured by the assignment of future rentals receivable under the terms of certain equipment lease agreements. The note is repayable at $1,000,000 (U.S.) per annum in 1971 and 1972, with the balance due in 1973

5 CURRENCY CONVERSION

Included in liabilities is $6,781,361 ($3,873,000 in 1969) payable in U.S. currency which has been converted to Canadian funds at a premium of 2% (7-21/32% in 1969).

6. STOCK OPTIONS

The Company has established an employee stock option plan pursuant to which 97,200 Common Shares of the Company are reserved for issue upon the exercise of stock options granted to bona fide full-time officers and employees of the Company. Under the plan, the Directors have granted options to purchase 42,000 Common Shares to 17 employees. All the authorized options are to be exercisable at $12.75 per share, are to expire April 30, 1975 and are to be exercisable on a cumulative basis as to 20% thereof by each employee during each of the five consecutive twelve month periods commencing May 1, 1970. The options provide for their earlier termination in the event that the employment of the person to whom the option is granted ceases prior to the expiry date of the option No options were exercised during 1970

7. RESTRICTIONS UNDER DEBENTURE TRUST DEEDS

The trust deeds securing the Demand Debentures referred to in Note 3 and the First Mortgage Debentures referred to in Note 4 contain certain restrictions including provisions that the Company will not permit net working capital to be less than $12,500,000 and that the Company and any subsidiary will not, without the consent of the holder of the debentures, declare or pay any dividend which would reduce net working capital below $12,500,000

Net working capital is defined under the trust deeds to include the working capital as reflected in the accompanying balance sheet, equipment leased to customers ($13,097,910 at December 31, 1970) and other minor items. The defined net working capital amounted to $24,608,279 at December 31, 1970; accordingly $12,108,279 of retained earnings was not restricted at December 31, 1970

8 PENSION PLAN

The Company has revised its employee pension plan so as to increase the benefits under the plan effective January 1, 1969 As a result, the independent consulting actuary estimates that the unfunded past service cost was $435,000 as of January 1, 1969. The Company is not amortizing this past service cost because it is expected that the anticipated experience of the fund will be sufficient to provide for this unfunded cost. However, if after the next actuarial study it appears that the experience of the fund will not be sufficient to provide for the unfunded past service cost, the Company will commence to amortize the cost over a period not to exceed 20 years

9 REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate remuneration paid by the Company and its subsidiary directly or indirectly to the Directors and Senior Officers of the Company during 1970 was $288,168 ($276,707 in 1969)

10 NET INCOME PER SHARE

Net income per share for 1970 and 1969 has been calculated on the basis of 1,944,000 Common Shares outstanding at December 31, 1970 and 1969. The Company issued 420,000 Common Shares on October 1, 1969 Using a weighted average, the number of Common Shares outstanding during 1969 was 1,629,000. The net income per share calculated on this basis is $1.70 for 1969

AUDITORS' REPORT

To the Shareholders of Finning Tractor & Equipment Company Limited:

We have examined the consolidated balance sheet of FINNING TRACTOR & EQUIPMENT COMPANY LIMITED (a British Columbia company) AND SUBSIDIARY as of December 31, 1970, and the related consolidated statements of income and source and application of funds for the year then ended Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances We have previously examined and reported on the consolidated financial statements for the preceding year

In our opinion the accompanying consolidated balance sheet and consolidated statements of income and source and application of funds present fairly the financial position of Finning Tractor & Equipment Company Limited and subsidiary as of December 31 1970 and the results of their operations and the source and application of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year

ARTHUR ANDERSEN & CO
Chartered Accountants

February 2, 1971, Vancouver B C

This self-loading wheel tractor-scraper is one of Caterpillar's newest introductions. It is the smallest scraper in the line and has potential in low volume earthmoving jobs where terrain and material are suitable. This unit, first in the province, helps build a forest access road in the Kamloops district.

This map shows the company's province-wide representation;
a network of 10 sales, parts and service centres; 13 parts and service depots;
and 10 resident service representatives.

THE COMPANY AND ITS BUSINESS

The year 1970 was not a good year for British Columbia. Business was beset by a number of negative factors and overall activity declined sharply in the last nine months of the year.

The economies slowed, internationally and nationally as well as provincially. Labor management disputes resulted in an all-time high for man days lost. The labor force of the province increased and this, coupled with the poor economic performance, led to serious unemployment. Even Nature contributed to the slowdown, with one of the worst forest fire seasons on record.

In our particular markets, only sales to the mining industry showed solid gains. Several large-tonnage operations came into production; other big-scale open pit developments were well into the planning stage; and exploration remained extremely active in most areas of the province, the Yukon and the Northwest Territories.

Conversely, our sales to other major markets fell below their 1969 levels. The forest industry was adversely affected by the drop in housing starts, weak demand and resultant low prices. Lockouts and strikes curtailed construction work. Reduced revenues restricted government purchases. Strikes hampered the towboat industry. And while a number of major oil and natural gas pipeline projects from Alaska to the United States were under study and national attention focussed on the North and its oil and gas potential, actual construction was modest.

MARKETING CAPABILITY

All in all, after the first three months it was a year which provided an opportunity to strengthen the company's marketing capability rather than to increase sales.

To this end we further diversified within our divisions, expanded and added to our facilities, developed new products and services.

Caterpillar is the heart of the marketing effort and major producer of revenue. New and improved products were introduced during the year to develop a wider stance in existing markets and to open up new areas of opportunity. One example was a 50-ton off-highway truck which fits neatly into most mining and construction haul requirements.

Caterpillar products are marketed through the sales force as a whole. Separate divisions, which total four, handle specialized product lines and services for particular markets. During the year each added new products and services to broaden their marketing capabilities for the industries served.

DIVISIONAL ACTIVITY

Koehring/Dart Division, for example, with the experience and know-how of our logging specialists, designed and developed a series of cable and hydraulic log loaders. These filled out the Koehring and Bantam line for all types of loading operations on the Coast and in the Interior.

Turning to other markets, the division's hydraulic backhoes should take on increasing importance as one result of emphasis on pollution and environmental control will be to expand water, sewage and waste disposal services. Many miles of trench will be required for the projected installations. "Pipeliner" models of these hoes could also find a ready market in the proposed oil and gas lines from the North.

The Dart dealership, obtained in April, includes giant loaders and off-highway trucks and complements Caterpillar's loader-truck combinations for the new open pit copper and coal properties.

Working on the steep slopes above Phillips Arm,
this Koehring log loader is one of the models developed
by the Koehring/Dart Division for all types of Coast or Interior loading operations.

The Light Industrial Division serves owners of small machines. It added the Long 5-N-1 to its line, giving contractors a versatile unit for a range of light digging, loading and lifting jobs.

In a year of downward trends, the Engine Division's performance improved substantially. The combination of Perkins diesel engines in the smaller power ranges and Caterpillar diesel and natural gas engines of bigger output enables us to satisfy customer needs in most industrial, vehicular and marine applications.

Two interesting developments by the Engine Division were the design and assembly of a portable electric set, marketed under our own trade name of Porta-Lec, and obtaining the distributorship for Towerlite, a portable light tower to illuminate night-time logging, construction and mining operations.

The fourth division is Towmotor which in 1970 developed its competence to provide a complete "turnkey" service to the warehousing industry. The Engineered Systems Department within this division is a new concept in Western Canada, providing everything from planning and designing a system to installation and maintenance of equipment for the storage and distribution of goods.

NEW FACILITIES

During the year work started on construction of a new sales, parts and service centre at Houston and the expansion of facilities at Cranbrook.

Houston was previously the site of a small depot directed from Prince George. The new two-storey, 14,000 square foot facility, half of which is devoted to repair services, will serve the big integrated mill complexes, logging contractors, mines and exploration companies in the area between Terrace and Prince George.

Cranbrook premises are being almost doubled, to 31,000 square feet. The expansion will greatly increase warehouse space for parts storage and shop area for machine and component repair. Indicative of the growth at Cranbrook, triggered by the large coal operations nearby, is the fact that the staff grew from 26 to 82 in three years. Cranbrook also directs operation of depots at Natal and Golden.

TOTAL SERVICE CONCEPT

Signs of a new trend in the maintenance and repair of equipment led to a new philosophy in service. Machine owners are taking a hard look at the hidden costs of doing their own repairs. The capital tied up in plant and equipment, high overhead costs, training and administration of staff—these and other factors are influencing machine owners to turn over more of their maintenance and repairs to the dealer.

In the forefront of this trend we created a comprehensive program called the Total Service Concept. This gives each customer the choice of repair and maintenance of his equipment to whatever degree he requires; from a periodic preventive maintenance check to supplying all labor at a stipulated hourly charge-out rate. We are also prepared to assume responsibility for all repairs and maintenance of equipment at a guaranteed cost to the customer.

PERSONNEL

The collective agreement between the company and the International Association of Machinists and Aerospace Workers expired on November 15, 1970. In a difficult year for contract settlements, ours was no exception. However, a satisfactory two-year contract was achieved and a new agreement signed, maintaining the harmonious relationship that has existed without a work stoppage since certification in 1951.

The Light Industrial Division increased its range of products by acquiring the dealership for the Long 5-N-1 multi-purpose tractor. Shown here excavating for water service to an Okanagan home, this machine has the versatility to handle many light digging, loading and lifting jobs.

As part of their growth program, the Towmotor Division completed organization of the Engineered Systems Department. The product line includes warehouse storage and distribution equipment like this Raymond Narrow Aisle Reach Truck and Palmer-Shile racking and shelving.

Artist's conception of sales, parts and service facility at Houston (top) and expansion of Cranbrook facility (bottom).

The directors commend the employees
for their ability to adapt to the abrupt change in economic environment
which occurred in 1970. The financial results
would not have been achieved without their commitment
to the goals of the company.

AR43

Make new file

This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale.

NO SECURITIES COMMISSION OR SIMILAR AUTHORITY IN CANADA HAS IN ANY WAY PASSED UPON THE MERITS OF THE SECURITIES OFFERED HEREUNDER AND ANY REPRESENTATION TO THE CONTRARY IS AN OFFENCE.

New Issue

FINNING

FINNING TRACTOR & EQUIPMENT COMPANY LIMITED

(Incorporated under the laws of British Columbia)

604-872-7474

420,000 Common Shares

(without nominal or par value)

The 420,000 Common Shares offered by this prospectus are being sold by the Company as shown under "Plan of Distribution" on page 7. There is no market for the Common Shares of the Company, and the price for this offering was determined by negotiation between the Company and the Underwriters.

Applications have been made to list the Common Shares on The Vancouver Stock Exchange and The Toronto Stock Exchange. Acceptance of the listings will be subject to the filing of required documents and evidence of satisfactory distribution, both within 90 days.

In the opinion of counsel, these Common Shares will be investments in which the Canadian and British Insurance Companies Act states that a company registered under Part III thereof may, without availing itself for that purpose of the provisions of subsection (4) of Section 63 of the said Act, invest its funds.

Price: $12.75 per share

We, as principals, offer these Common Shares subject to prior sale, if, as and when issued by the Company and accepted by us and subject to the approval of all legal matters on behalf of the Company by Ladner, Downs, Ladner, Locke, Clark and Lenox, Vancouver and on our behalf by Lawson, Lundell, Lawson & McIntosh, Vancouver.

	Price to public	Underwriting discount	Proceeds to Company (1)
Per share	$12.75	$0.73	$12.02
Total	$5,355,000	$306,600	$5,048,400

(1) Before deduction of expenses of the offering estimated at $50,000.

Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that share certificates in definitive form will be available for delivery on or about October 1, 1969.

Wood Gundy Securities

Limited

Toronto Montreal Winnipeg Vancouver Halifax Quebec Saint John
Ottawa Hamilton London Kitchener Regina Saskatoon
London, Eng. Edmonton Calgary Victoria New York

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Purchaser's Statutory Rights of Withdrawal and Rescission

Sections 63 and 64 of The Securities Act, 1967 (Alberta), sections 70 and 71 of The Securities Act, 1967 (Saskatchewan), sections 63 and 64 of The Securities Act, 1968 (Manitoba), and sections 63 and 64 of The Securities Act, 1966 (Ontario) provide, in effect, that where a security is offered to the public in the course of primary distribution,

(a) a purchaser will not be bound by a contract for the purchase of such security if written or telegraphic notice of his intention not to be bound is received by the vendor or his agent not later than midnight on the second business day after the prospectus or amended prospectus offering such security is received or is deemed to be received by him or his agent, and

(b) a purchaser has the right to rescind a contract for the purchase of such security, while still the owner thereof, if the prospectus or any amended prospectus offering such security contains an untrue statement of a material fact or omits to state a material fact necessary in order to make any statement therein not misleading in the light of the circumstances in which it was made, but no action to enforce this right can be commenced by a purchaser after the expiration of 90 days from the later of the date of such contract or the date on which such prospectus or amended prospectus is received or is deemed to be received by him or his agent.

Sections 61 and 62 of the Securities Act, 1967 (British Columbia) provide, in effect, that where a security is offered to the public in the course of primary distribution,

(a) a purchaser has a right to rescind a contract for the purchase of a security, while still the owner thereof, if a copy of the last prospectus, together with financial statements and reports and summaries of reports relating to the securities as filed with the British Columbia Securities Commission, was not delivered to him or his agent prior to delivery to either of them of the written confirmation of the sale of the securities. Written notice of intention to commence an action for rescission must be served on the person who contracted to sell within 60 days of the date of delivery of the written confirmation, but no action shall be commenced after the expiration of three months from the date of service of such notice, and

(b) a purchaser has the right to rescind a contract for the purchase of such security, while still the owner thereof, if the prospectus or any amended prospectus offering such security contains an untrue statement of a material fact or omits to state a material fact necessary in order to make any statement therein not misleading in the light of the circumstances in which it was made, but no action to enforce this right can be commenced by a purchaser after expiration of 90 days from the later of the date of such contract or the date on which such prospectus or amended prospectus is received or is deemed to be received by him or his agent.

Reference is made to the aforesaid Acts for the complete texts of the provisions under which the foregoing rights are conferred and the foregoing summary is subject to the express provisions thereof.

The Company

Finning Tractor & Equipment Company Limited was incorporated in 1933 as a private company under the provisions of the Companies Act of British Columbia by the registration of its Memorandum of Association and Articles of Association. On September 2, 1969 Finning Tractor & Equipment Company Limited was converted to a public company by special resolution duly filed with the Registrar of Companies of British Columbia in respect of which the Registrar of Companies has issued his certificate dated September 2, 1969.

In this prospectus Finning Tractor & Equipment Company Limited is referred to as the "Company" and together with its wholly-owned subsidiary, Finning Tractor (1959) Ltd., is referred to as "Finning". Finning Tractor (1959) Ltd. owns the inventory of new equipment and parts which the Company sells.

The Company's registered and head office and principal place of business is located at 555 Great Northern Way, Vancouver, British Columbia.

Use of Proceeds

The estimated net proceeds to the Company from the sale of the Common Shares being offered by this prospectus, after deducting the expenses of the issue estimated at $50,000 will amount to $4,998,400, of which $1,460,274 will be used to reduce bank debt incurred to retire part of the Company's subordinated debt and the balance will be used to reduce bank debt incurred for operating requirements.

Capitalization

	Authorized and to be authorized	Outstanding as at May 31, 1969	Outstanding as at June 30, 1969	Outstanding as at June 30, 1969 after giving effect to this financing and the transactions described in Note 6
DEBT:				
Bank debt (1)		$20,468,158	$20,923,567	$17,385,441
7¼% First mortgage debentures (2)	$5,000,000	4,400,000	4,400,000	4,400,000
7% First mortgage (3)	400,000	344,524	342,932	342,932
Subordinated debt (4) (6)	4,994,540	4,994,540	4,994,540	—
CAPITAL STOCK: (5)				
3% Non-cumulative redeemable preference shares of the par value of $100 each	11,500 shs.	—	—	—
Class "A" common shares of the par value of $100 each	757 shs.	257 shs. ($25,700)	257 shs. ($25,700)	—
Class "B" common shares of the par value of $100 each	243 shs.	243 shs. ($24,300)	243 shs. ($24,300)	—
Common Shares without nominal or par value (6) (7) (8)	5,000,000 shs.	—	—	1,944,000 shs. ($8,632,674)

Notes:

(1) Bank debt is payable on demand and is secured by the pledge of Demand Debentures of the Company in the principal amount of $5,000,000, and by an assignment of fire insurance, a general assignment of book debts, a pledge of notes receivable, a pledge of equipment rental agreements and the guarantee of Finning Tractor (1959) Ltd. The aforesaid Demand Debentures are secured by a fixed charge on substantially all the fixed assets of the Company and on all of the shares of Finning Tractor (1959) Ltd., and by a floating charge on the undertaking, property and assets of Finning and are guaranteed by Finning Tractor (1959) Ltd.

The trust deed securing the Demand Debentures contains certain restrictions including provisions that the Company will not permit net working capital to be less than $12,500,000 and that the Company and any subsidiary will not, without the consent of the holder of the Demand Debentures, declare or pay any dividend which, after giving effect to such payment, would reduce net working capital below $12,500,000. In determining net working capital for the purpose of this trust deed, equipment rented to customers is included in current assets.

The Company has created and issued and is committed to pledge to its bank a further Demand Debenture similarly secured in the principal amount of $5,000,000 to secure the said bank debt. Subsequent to June 30, 1969 the Company will borrow $1,460, 274 from its bank to reduce its subordinated debt.

(2) Secured by a first fixed charge on substantially all the fixed assets of the Company and on all of the shares of Finning Tractor (1959) Ltd., and by a floating charge on the undertaking, property and assets of Finning, and guaranteed by Finning Tractor (1959) Ltd. Payable as to principal at $600,000 per annum from 1969 to 1975 with the balance due in 1976. The trust deed securing these debentures contains the same restrictions as in the trust deed referred to in Note 1 above.

(3) Secured by a first mortgage on certain lands and buildings. Payable in monthly instalments of $3,573 including interest and maturing April 1, 1981.

(4) Non-interest bearing note due 366 days after demand held by Marin Industries Ltd. ("Marin").

(5) Prior to the date of purchase by the Underwriters of the 420,000 Common Shares described under Plan of Distribution on page 7, the authorized and issued Class "A" and Class "B" common shares will be reclassified as Common Shares without nominal or par value, the 1,000 authorized and 500 issued Common Shares will be subdivided into 2,493,604 authorized and 1,246,802 issued Common Shares, the 11,500 unissued preference shares will be increased and changed to 76,667 Common Shares and the Company will be authorized to issue an additional 2,429,729 Common Shares.

(6) This table gives effect to the following transactions which are to take place before or at the time of the purchase by the Underwriters of the 420,000 Common Shares offered hereby:

(i) the borrowing by the Company from its bank of $1,460,274 to reduce its subordinated debt owed to Marin, which bank borrowing will then be retired out of the proceeds of this issue; and

(ii) the retirement of the remaining $3,534,266 of subordinated debt owed to Marin, and the investment by Mrs. M. M. Young, Mrs. J. E. Barker, and Finning Securities Ltd., of the same amount by subscription by them for 277,198 Common Shares of the Company at a price of $12.75 per share.

(7) In addition to the paid-up capital shown in this table, the Company had retained earnings of $8,765,000 as at May 31, 1969.

(8) Of the authorized and unissued Common Shares, 97,200 will be reserved for allotment under the Company's stock option plan described under "Stock Options" on page 9.

Business

The Company was founded by the late Earl B. Finning in 1933 to acquire the assets and goodwill of Morrison Tractor & Equipment Company Limited and to become its successor as the Caterpillar dealer in British Columbia. The Company now sells, rents and services heavy equipment within the Province of British Columbia dealing in "Caterpillar" diesel tractors, bulldozers, scrapers, rippers, hydraulic controls, pipe layers, front-end loaders, motor graders, electric generating sets and engines; "Towmotor" forklift trucks and straddle carriers; "Hyster" compaction equipment and logging winches; "Koehring" cranes and excavators; "Perkins" diesel engines and auxiliary equipment of other manufacturers. The Company supplies and services heavy equipment used in the logging, mining, fishing and oil and natural gas industries, the construction industry and supporting services to these industries.

During the past ten years the Company's gross revenue, the major portion of which is derived from the Caterpillar product line, has increased from $15,355,410 to $55,413,000 and the number of employees has grown from 365 on December 31, 1958 to 894 on December 31, 1968.

The growth of the Company's business is shown by the following table:

	Year ended December 31					Five months ended May 31	
	1964	1965	1966	1967	1968	1968	1969
Gross revenue (000's)	$34,948	$48,483	$45,514	$49,508	$55,413	$20,653	$33,836
Shareholders' equity (000's)	2,272	3,957	4,676	5,660	7,472	6,200	8,815
Net income (000's)	1,398	1,789	967	1,681	1,812	540	1,343
Net income per share (1)	72¢	92¢	50¢	86¢	93¢	28¢	69¢

Note: (1) Based on number of shares to be outstanding after giving effect to this financing.

Dealer Agreements

Caterpillar

Finning holds a Caterpillar equipment dealership for British Columbia except a small area in northern British Columbia on the Yukon border and except portions of the Banff and Jasper National Parks. While Caterpillar dealer agreements are cancellable by either party on written notice, there have been relatively few cancellations during the course of Caterpillar's growth and development since its founding in 1925. In the event of termination by Caterpillar of its dealer agreement with Finning, the Caterpillar organization agrees to buy back substantially all new products at cost.

Finning has held the Caterpillar dealership for 36 consecutive years and in terms of sales volume is now one of the largest Caterpillar dealers in the world, having attained this position by virtue of its efficient

operations in the rapidly growing markets it serves.

The attitude and philosophy of Caterpillar towards its dealers is best summed up in a letter of August 26, 1969 from Mr. J. B. Wilson, President of Caterpillar Americas Co., to the Company stating:

> "Caterpillar is convinced that generally the most effective way of marketing its products is through separately owned and managed dealer organizations. This has traditionally been our view and we continue to assert our faith, confidence and enthusiasm for marketing our product this way."

Other

The Koehring dealer arrangements were established in 1969. Although Finning may distribute the entire Koehring line, it has chosen to market only units which are not in direct competition with Caterpillar equipment. Finning is also a dealer for other manufacturers whose products complement the above lines. These arrangements are cancellable on short notice by either party.

Operations

The Company's operations are carried on through local sales and service facilities designed to meet the customer's needs in the most effective manner. This has been accomplished by establishing ten branches, six service depots and, currently, 11 resident field service representatives. The branches, which provide complete facility for sales, parts and service, are located at Vancouver, Prince George, Kamloops, Dawson Creek, Cranbrook, Terrace, Williams Lake, Nelson, Vernon and Chilliwack. The service depots, which afford service facilities, are located at Victoria, Nanaimo, Campbell River, Golden, Fort Nelson and Prince Rupert. The resident field service representatives operate from strategic points in the province as required by the machine population of the areas they serve.

Overall administration of the Company's business is directed from its head office in Vancouver which maintains centralized control of finance, credit, accounting, inventories, training and sales promotion. Modern management techniques and equipment are employed. The Company has had an in-house computer capability since 1961 and is now employing a leased Honeywell H-1200 computer which is used in virtually all phases of Finning's operations.

Training

The increasing sophistication in design and application of heavy equipment requires highly specialized skills in servicing and marketing. The Company conducts intensive in-plant training programs for its sales, parts and service employees. Apprentice mechanics are trained under the British Columbia vocational training program. The Company also participates actively in training opportunities offered by manufacturers, trade associations and distributor groups.

The Company recognizes the value of management development. It has adopted programs of continuing education for management through executive development courses at Massachusetts Institute of Technology, Stanford University, the University of California, the University of Western Ontario and the Banff School of Advanced Management, as well as through internal management training courses.

Properties

The Company owns its head office and Vancouver branch located at 555 Great Northern Way on approximately 18 acres of industrial land. To enlarge these Vancouver facilities the Company recently purchased a building on 2.7 acres of rented land adjacent to its present facilities and is now negotiating the purchase of this land. The Company occupies, at this location, four buildings constructed during the past five years which contain 46,486 square feet of air-conditioned office space and 136,900 square feet of service shops and warehousing space.

The nine remaining branches are in buildings owned by the Company of which seven are on owned land and two are on leased land. All sites are advantageously located and most afford the opportunity for expansion. The buildings provide in the aggregate 156,670 square feet of office, service shops and warehousing space.

The Kamloops property is subject to the 7% First mortgage as shown under "Capitalization" on page 3 and all properties are subject to the charges of the trust deeds securing the 7¼% First mortgage debentures and the Demand Debentures, also shown under "Capitalization".

Market Position

While competitors generally have a price advantage and some offer lines not presently provided by it, the Company has achieved a commanding share of its market by virtue of its quality product lines, aggressive and resourceful marketing and financing programs and dependable province-wide service organization.

Employees

The Company now employs approximately 1,075 people. Some 650 of these employees are represented by the International Association of Machinists and Aerospace Workers, the majority being skilled mechanics, partsmen and apprentices. The Company has enjoyed excellent labour relations with the union since its certification 18 years ago and has never suffered a work stoppage. The Company's current collective agreement expires November 15, 1970.

Management

An Executive Group, consisting of six members of senior management, is responsible for formulating long-term planning and co-ordinating implementation of Company policy. The average age of this group is 47 years and they have an average of 21 years experience in the business. Further particulars relating to the Executive Group are shown below under "Directors and Officers".

Day-to-day operating decisions are the responsibility of some 30 individuals who are senior branch managers, department managers and product division managers.

Directors and Officers

Name	Office or position	Home address
William Maurice Young *	President, Director	3989 Pine Crescent, Vancouver, B.C.
Richard Edward Lane *	Executive Vice-President, Director	4900 Angus Drive, Vancouver, B.C.
John David Frazee *	Vice-President, Sales, Director	4850 The Dale, West Vancouver, B.C.
Vinod Kumar Sood *	Vice-President, Finance, Director	835 Westview Crescent, North Vancouver, B.C.
Robert Cecil Biss *	Manager, Parts and Service, Director	9812 Allard Crescent, R.R. No. 5, Langley, B.C.
Harold Clark Bentall	Director	2194 S.W. Marine Drive, Vancouver, B.C.
James Ross LeMesurier	Director	9 Dinnick Crescent, Toronto, Ontario
John Arnold Eccles Rollins *	Vice-President, Parts and Service	5890 Athlone Street, Vancouver, B.C.
Ronald William Park	Secretary-Treasurer	1195 Chartwell Crescent, West Vancouver, B.C.

* Member of Executive Group.

Set out below are the present and prior principal occupations of each of the directors and officers of the Company who have been associated in various capacities indicated during the last five years:

W. M. Young, age 45, is the President of the Company. Since 1948 he has held various managerial positions with the Company and assumed his present position in 1962. He holds a Bachelor of Commerce Degree from U.B.C. and a Master of Science (Management) degree from Massachusetts Institute of Technology. He is a director of Pine Point Mines Limited.

R. E. Lane, age 56, became Executive Vice-President in 1966. He has been with the Company for 19 years, during which period he has served in various sales management positions.

J. D. Frazee, age 43, has been Vice-President, Sales for three years. He joined the Company in 1950 and held several positions in the sales department prior to his present appointment. He holds a Bachelor of Applied Science Degree in Mechanical Engineering from U.B.C. and a Master of Science (Management) degree from Massachusetts Institute of Technology.

V. K. Sood, age 34, joined the Company early in 1968 and was appointed Vice-President, Finance in March 1969. Prior to March 16, 1968 he held various management positions with Bajaj Electricals Ltd. in India. He is a Bachelor of Science, a Chartered Accountant (India) and holds a Master of Science (Management) degree from Massachusetts Institute of Technology.

R. C. Biss, age 45, has been with the Company for 28 years. Before his present appointment to the position of Manager, Parts and Service, he was General Parts Manager and served in other management capacities in the Company's parts and service operations.

H. C. Bentall, age 54, is President of Dominion Construction Co. Ltd., Vancouver, B.C. He is a director of Scott Paper Ltd. and Cominco Ltd.

J. R. LeMesurier, age 45, is a Vice-President and Director of Wood Gundy Securities Limited. He is a director of Indal Canada Limited and Systems Dimensions Limited.

J. A. E. Rollins, age 60, has been associated with the business of the Company since its beginnings. In his 40 years in the equipment distribution business, he has served in various positions in the parts and services operations and was appointed Vice-President, Parts and Service in 1966. He has been a Director of the Company and resigned in 1969 in preparation for his retirement at the end of this year.

R. W. Park, age 39, a Chartered Accountant, joined the Company in 1964 as Systems and Methods Coordinator and was appointed Secretary-Treasurer in 1967. Prior to August 1, 1964, his principal occupation was that of audit supervisor in the firm of McIntosh, McVicar, Dinsley & Co., Chartered Accountants.

Remuneration of Directors and Senior Officers

The aggregate remuneration paid by Finning, directly or indirectly to the Directors and Senior Officers of Finning for its financial year ended December 31, 1968 was $199,500 and from January 1, 1969 to June 30, 1969 was $132,500. No remuneration has been paid to the Directors as such.

The estimated cost to Finning in the last financial year of all pension benefits proposed to be paid in the aggregate under the Company's pension plan in the event of retirement at normal retirement age, directly or indirectly, by the Company to the Directors and Senior Officers of Finning was $9,775.

Plan of Distribution

By agreement dated September 10, 1969 between the Company and Wood Gundy Securities Limited and Pemberton Securities Limited (the "Underwriters"), the Company agreed to sell and the Underwriters agreed to purchase all the 420,000 Common Shares offered by this prospectus at a price of $12.02 per share payable in cash against delivery of certificates representing the said shares on or about October 1, 1969 upon and subject to the terms and conditions set out in the said agreement and compliance with the necessary legal requirements. Under the said agreement the Underwriters are jointly and severally obliged to take up and pay for all the 420,000 Common Shares if any are taken up.

Net Assets per Common Share

According to the accompanying pro forma consolidated balance sheet of the Company and its subsidiary as at May 31, 1969 net assets per Common Share of the Company after giving effect to this financing will be approximately $8.95 per share.

Description of the Common Shares

The Common Shares without nominal or par value will constitute the only outstanding shares of the Company. Each shareholder will be entitled to one vote at all meetings of shareholders for each Common Share held and to share equally in respect of dividend rights and upon a winding-up or dissolution of the Company. Trust deeds relating to the Company's debt contain covenants restricting the payment of dividends in the manner described in Note 1 to "Capitalization" on page 3. All Common Shares to be outstanding upon completion of the present financing will be fully paid and non-assessable.

Dividends

The payment of dividends on the Common Shares to be outstanding upon the completion of this financing will be determined by the board of directors on the basis of the earnings, financial condition and financial requirements of the Company. Payment of dividends is restricted in the manner described in Note 1 to "Capitalization" on page 3.

The following dividends have been paid on the Common Shares of the Company (based on number of shares to be outstanding after giving effect to this financing):

	Years ended December 31				
	1964	1965	1966	1967	1968
Per Common Share	12¢	5¢	13¢	36¢	—
Total amount	$228,000	$104,000	$248,000	$697,000	—

Principal Shareholders

On the date of this prospectus Finning Securities Ltd. owned all the issued 257 Class "A" common shares of the Company and Tractor Holdings Ltd. owned all the issued 243 Class "B" common shares. The following are the names of the principal shareholders and the number of shares of the Company owned by them respectively as of the date of this prospectus after giving effect to the alterations of capital described in note 5 to "Capitalization" on page 4 and before the allotment of shares to the subscribers described in note 6(ii) to "Capitalization":

Name and address	Type of ownership	Number of common shares owned	Percentage of class outstanding
Finning Securities Ltd., 6th Floor, 640 West Hastings Street, Vancouver, B.C.	Beneficial and of record	640,856	51.4%
Tractor Holdings Ltd., 6th Floor, 640 West Hastings Street,	Beneficial and of record	598,464	48.0%
Vancouver, B.C.	Beneficial	7,482	0.6%

The following are the names of the principal shareholders and the numbers of shares of the Company which will be owned by them, of record, respectively after this financing:

Name and address	Number of Common Shares	Percentage of Common Shares
Canada Permanent Trust Company, 455 Granville St., Vancouver, B.C.	788,524	40.6%
Tractor Holdings Ltd., 6th Floor, 640 West Hastings St., Vancouver, B.C.	605,946	31.2%
Joanne Earlene Barker, 825 Fairmile Road, West Vancouver, B.C.	64,765	3.3%
Mary Margaret Young, 3989 Pine Crescent, Vancouver, B.C.	64,765	3.3%

The Common Shares to be held of record by Canada Permanent Trust Company will be owned beneficially by Finning Securities Ltd., and will be the subject of the voting trust described under "Voting Trust Agreement" on page 9. The voting shares of Finning Securities Ltd. and of Tractor Holdings Ltd. are owned equally by Joanne Earlene Barker and Mary Margaret Young, daughters of the late Earl B. Finning. The non-voting shares of Tractor Holdings Ltd. and Finning Securities Ltd. are owned by Marin Industries Ltd. All the voting shares of Marin Industries Ltd. are owned indirectly through Cavan Holdings Ltd. by Joanne Earlene Barker, William Thorvald Barker, her husband, and trustees for their children and Mary Margaret Young and William Maurice Young, her husband and the President of the Company, and trustees for their children.

Stock Options

The Company has established an employee stock option plan pursuant to which options to purchase 97,200 Common Shares of the Company are reserved for issuance after the capital of the Company has been changed as described in note 5 to "Capitalization" on page 4, upon the exercise of stock options granted to bona fide full time officers and employees of the Company. The directors under the plan have authorized the granting to 17 employees of the Company of options to purchase 42,000 Common Shares. All the authorized options are to be exercisable at $12.75 per share, are to expire April 30, 1975 and are to be exercisable on a cumulative basis as to 20% thereof by each employee during each of the five consecutive 12 month periods, commencing May 1, 1970. No option may be exercised prior to the end of six months following the authorization thereof. The options provide for their earlier termination in the event that the employment of the person to whom the option is granted ceased prior to the expiry date of the option. The persons to whom the granting of the said options has been authorized include five directors and senior officers of the Company who will receive options to purchase in the aggregate of 26,000 Common Shares and twelve other employees of the Company who will receive options to purchase 16,000 Common Shares. Options to purchase the remaining 55,200 Common Shares set aside under the plan may be granted at prices not less than 90% of the higher of the last reported sale prices of such shares on The Vancouver Stock Exchange or The Toronto Stock Exchange on the day immediately preceding that on which such options are granted.

Voting Trust Agreement

Prior to the date of purchase by the Underwriters of the 420,000 Common Shares described under Plan of Distribution on page 7, an agreement will be entered into between Finning Securities Ltd., William Maurice Young, President of the Company, and Canada Permanent Trust Company whereby Mr. Young will be appointed Voting Trustee for 788,524 Common Shares of the Company. The said Common Shares will be beneficially owned by Finning Securities Ltd. and will be nominally held by Canada Permanent Trust Company. The said agreement will terminate at the end of 3 years from the date thereof or within the 3 year period upon the death, incapacity or resignation as Voting Trustee of Mr. Young or by termination by Finning Securities Ltd. on 6 months notice.

Material Contracts

Particulars of material contracts entered into by the Company within the past two years, other than in the ordinary course of business, are as follows:

(1) the underwriting agreement referred to under "Plan of Distribution" on page 7.

(2) a Supplemental Trust Deed dated September 1, 1969 in favour of Canada Permanent Trust Company supplemental to the Deed of Trust and Mortgage securing the Demand Debentures referred to under Note 1 to "Capitalization" on page 3.

(3) The commitment letter dated September 10, 1969 given by the Company to its Bank under which the Company is to pledge to its Bank the $5,000,000 Demand Debenture dated September 10, 1969 created by the Company pursuant to the Supplemental Trust Deed referred to under (2) above.

(4) a Supplemental Trust Deed dated September 1, 1969 in favour of Canada Permanent Trust Company supplemental to the Deed of Trust and Mortgage securing the 7¼% First mortgage debentures referred to under Note 2 to "Capitalization" on page 3.

Copies of the foregoing documents may be inspected during ordinary business hours at the head office of the Company during the primary distribution of the securities offered by this prospectus and for a period of 30 days thereafter.

Auditors, Transfer Agent and Registrar

The auditors of the Company are Arthur Andersen & Co., Chartered Accountants, 1075 Melville Street, Vancouver, B.C.

The transfer agent and registrar for the shares of the Company will be Canada Permanent Trust Company, at its principal offices in Vancouver, Calgary, Winnipeg, Toronto and Montreal and registers for the transfer of the shares will be kept at these offices.

Finning Tractor & Equipment Company Limited
and Subsidiary

Consolidated Balance Sheet and Pro Forma Consolidated Balance Sheet

May 31, 1969
(thousands of dollars)

Assets (Note 6)	Actual	Pro Forma (Note 2)
Current Assets:		
Cash	$ 10	$ 10
Notes and accounts receivable		
Instalment notes, at principal balances, including $2,460 due after one year (Note 3)	7,293	7,293
Accounts receivable	8,614	8,614
Inventories, at the lower of cost or market (Note 4)		
Equipment	11,582	11,582
Parts and supplies	6,724	6,724
Total current assets	34,223	34,223
Equipment Rented to Customers, at cost less accumulated depreciation of $4,970 (Note 5)	10,348	10,348
Fixed Assets, at cost:		
Land	523	523
Buildings and equipment	9,171	9,171
	9,694	9,694
Less—Accumulated depreciation	3,709	3,709
	5,985	5,985
Other Assets, at cost	214	264
	$50,770	$50,820

Liabilities

	Actual	Pro Forma
Current Liabilities:		
Notes payable		
Bank (Note 6)	$20,468	$16,930
Other	133	133
Accounts payable and accrued liabilities (Note 11)	8,548	8,548
Income taxes payable	1,235	1,235
Current portion of long-term liabilities	620	620
Total current liabilities	31,004	27,466
Long-term Liabilities: (Note 6)		
7¼% First mortgage debentures	4,400	4,400
Other First mortgage	345	345
	4,745	4,745
Less—Current portion included above	620	620
	4,125	4,125
Deferred Income Taxes (Note 13)	1,831	1,831
Subordinated Note Payable to Affiliated Company (Note 6)	4,995	—

Shareholders' Equity

	Actual	Pro Forma
Capital Stock and Retained Earnings: (Note 12)		
Capital stock		
3% non-cumulative redeemable preference shares, $100 par value; authorized, 11,500 shares	—	—
Class "A" common shares, $100 par value; authorized, 757 shares; issued and fully paid, 257 shares	26	—
Class "B" common shares, $100 par value; authorized, issued and fully paid, 243 shares	24	—
Common Shares without nominal or par value; authorized, 5,000,000 shares; issued and fully paid, 1,944,000 shares	—	8,633
Retained earnings (Note 7)	8,765	8,765
	8,815	17,398
	$50,770	$50,820

Approved on behalf of the board:

(Signed) V. SOOD, Director (Signed) W. M. YOUNG, Director

The accompanying notes are an integral part of these statements.

Finning Tractor & Equipment Company Limited
and Subsidiary

Consolidated Statement of Income

(thousands of dollars)

	Year ended December 31					Five months ended May 31	
	1964	1965	1966	1967	1968	1968 (unaudited)	1969
Gross revenues	$34,948	$48,483	$45,514	$49,508	$55,413	$20,653	$33,836
Expenses: (Note 10)							
Cost of sales and selling expenses	30,052	41,967	39,495	42,246	47,375	17,893	29,038
General and administrative	1,536	2,011	2,699	2,748	2,857	1,109	1,403
Interest—							
Current	539	966	1,247	966	955	345	561
Long-term	3	2	244	389	388	162	150
	32,130	44,946	43,685	46,349	51,575	19,509	31,152
Income before taxes	2,818	3,537	1,829	3,159	3,838	1,144	2,684
Provision for income taxes:							
Current	1,042	1,151	698	1,992	2,131	636	1,239
Deferred	378	597	164	(514)	(105)	(32)	102
	1,420	1,748	862	1,478	2,026	604	1,341
Net income	$ 1,398	$ 1,789	$ 967	$ 1,681	$ 1,812	$ 540	$1,343

Consolidated Statement of Retained Earnings

(thousands of dollars)

	Year ended December 31					Five months ended May 31	
	1964	1965	1966	1967	1968	1968 (unaudited)	1969
Balance, beginning of period	$ 1,052	$ 2,222	$ 3,907	$ 4,626	$ 5,610	$ 5,610	$ 7,422
Net income	1,398	1,789	967	1,681	1,812	540	1,343
	2,450	4,011	4,874	6,307	7,422	6,150	8,765
Dividends paid on Class "A" shares	228	104	248	697	—	—	—
Balance, end of period	$ 2,222	$ 3,907	$ 4,626	$ 5,610	$ 7,422	$ 6,150	$ 8,765

The accompanying notes are an integral part of these statements.

Finning Tractor & Equipment Company Limited
and Subsidiary

Notes to Consolidated Financial Statements

May 31, 1969

1. PRINCIPLES OF CONSOLIDATION

The Consolidated Balance Sheet and Consolidated Statements of Income and Retained Earnings include the assets, liabilities and results of operations of the wholly-owned subsidiary, Finning Tractor (1959) Ltd.

2. PRO FORMA BALANCE SHEET

The Pro Forma Consolidated Balance Sheet gives effect as of May 31, 1969 to the following transactions:

(a) An amendment to the Memorandum of Association of the Company, which will reclassify the authorized and issued Class "A" and Class "B" common shares as Common Shares without nominal or par value, will subdivide the 1,000 authorized and 500 issued Common Shares into 2,493,604 authorized and 1,246,802 issued Common Shares, will convert the 11,500 preference shares to Common Shares and will increase the number of shares which the Company is authorized to issue to 5,000,000 Common Shares without nominal or par value.

(b) The retirement of the Subordinated Note Payable in the following manner:

(i) out of proceeds of bank borrowing	$1,460,274
(ii) out of proceeds of issue of 277,198 Common Shares to M. M. Young, J. E. Barker and Finning Securities Ltd.	$3,534,266
	$4,994,540

(c) The issue of 420,000 Common Shares for $5,048,400 less estimated expenses of $50,000.

(d) The application of the proceeds of the issue of the 420,000 Common Shares as follows:
   (i) $1,460,274 to reduce bank debt of $1,460,274 incurred to retire Subordinated Note Payable (see Note 2(b) (i));
   (ii) $3,538,126 to reduce bank debt incurred for current operating purposes.

3. INSTALMENT NOTES RECEIVABLE

Instalment Notes receivable are stated as principal balances, after deducting unearned interest of $742,845. Maturities after one year are:

Between June 1, 1970 and May 31, 1971 inclusive	$1,738,000
Between June 1, 1971 and May 31, 1972	679,000
After May 31, 1972	43,000
	$2,460,000

4. INVENTORIES

Inventory cost is on a specific item actual cost basis for equipment and a first-in, first-out basis for parts and supplies. Net realizable value has been used to determine market.

5. EQUIPMENT RENTED TO CUSTOMERS

In years prior to 1966, the Company calculated depreciation on equipment rented to customers as 80% of rental income during the year. Effective January 1, 1966, the Company changed its policy to calculate depreciation on the difference between cost and anticipated residual value, recorded on a straight-line basis over the term of the rental agreement.

In accordance with the new policy, depreciation charges for years prior to 1966 have been restated. The following table sets forth the effect of this restatement on the statements of income for the years ended December 31, 1964 and 1965.

	1964	1965
Net income before restatement	$1,171,000	$1,631,000
Decrease in cost of sales	446,000	316,000
Resultant increase in deferred income tax	(223,000)	(158,000)
Miscellaneous credit reclassified from retained earnings to income statement	4,000	—
Net income as restated	$1,398,000	$1,789,000

6. NOTES AND MORTGAGES PAYABLE

(a) Notes payable to bank, due on demand—	Actual	Pro Forma
Demand note, payment scheduled by letter agreement with the bank at $600,000 per annum—		
Scheduled within one year	$ 600,000	$ 600,000
Scheduled after one year	600,000	600,000
Other demand notes	19,268,000	15,730,000
	$20,468,000	$16,930,000

These notes are secured by the pledge of Demand Debentures of the Company in the principal amount of $5,000,000, and by an assignment of fire insurance, a general assignment of book debts, a pledge of notes receivable, a pledge of equipment rental agreements and the guarantee of Finning Tractor (1959) Ltd. and of certain companies who directly and indirectly own the shares of the Company (the "Shareholders"). The aforesaid Demand Debentures are secured by a trust deed which constitutes a fixed charge on substantially all the fixed assets of the Company and on all the shares of Finning Tractor (1959) Ltd., and by a floating charge on the undertaking, property and assets of the Company and Finning Tractor (1959) Ltd. and are guaranteed by Finning Tractor (1959) Ltd. Subsequent to May 31, 1969 the Company has entered into a supplemental trust deed to provide security for an additional Demand Debenture similarly secured in the principal amount of $5,000,000 to secure the said bank debt and to release the guarantees of the Shareholders.

The interest on all notes payable to the bank are subject to periodic review and adjustment based on changes in the prevailing prime rate of interest.

(b) 7¼% First mortgage debentures—

These debentures are payable at $600,000 per annum from 1969 to 1975 with the balance due in 1976. The debentures are secured by a trust deed which constitutes a first fixed charge on substantially all the fixed assets of the Company and on all the shares of Finning Tractor (1959) Ltd., and by a floating charge on the undertaking, property and assets of the Company and Finning Tractor (1959) Ltd., and guaranteed by Finning Tractor (1959) Ltd. and the Shareholders. Subsequent to May 31, 1969 the Company has entered into a supplemental trust deed to release the guarantees of the Shareholders.

(c) Other first mortgage—

This is a 7% mortgage on Kamloops land and buildings, with combined repayments of blended interest and principal being $42,876 per annum until 1981.

(d) Subordinated note payable to an affiliated company

This is a non-interest-bearing note due 366 days after demand. By agreement, repayment has been subordinated to obligations to the bank; repayment has also been subordinated under the trust deeds securing the Demand Debentures and the 7¼% First mortgage debentures. Retirement of the note payable as outlined in Note 2 has been agreed to by the bank and the mortgage debenture holders.

7. RESTRICTIONS UNDER DEBENTURE TRUST AGREEMENTS

The trust deed securing the Demand Debenture referred to in Note 6(a) contains certain restrictions including provisions that the Company will not permit net working capital to be less than $7,500,000 and that the Company and any subsidiary will not, without the consent of the holder of the Demand Debenture, declare or pay any dividend which, after giving effect to such payment, would reduce net working capital below $7,500,000. Net working capital as defined under the trust deed amounted to $14,910,000 as at May 31, 1969, and includes, among other things, equipment rented to customers. The trust deed securing the First mortgage debentures contains the same restrictions.

Subsequent to May 31, 1969, the provisions of the above trust deeds were amended. Under the revised provisions, the working capital requirement was increased to $12,500,000. Applying these revised provisions to the pro-forma balance sheet, net working capital as defined amounted to $18,448,000.

8. ACCOUNTING FOR SERVICE REVENUE

Prior to 1967, substantially all service work-in-process at December 31 was billed to customers and included in income of that year. In 1967, the Company discontinued this practice, and has included all service work-in-process in inventories of parts and supplies, at cost. If the service work-in-process at December 31, 1967 had been billed and recorded on a basis consistent with the prior year, net income for 1967 would have been increased by $154,000, after applicable income taxes.

9. PENSION PLAN

The Company is in the process of revising its employee pension plan so as to increase the benefits under the plan effective January 1, 1969. As a result, the independent consulting actuary estimates that the unfunded past service cost approximates $600,000 as of January 1, 1969. The Company is not amortizing the past service cost as management believes the anticipated experience of the fund will be sufficient to provide for the unfunded cost. However, if after the next actuarial study it appears that the experience of the fund is not going to be sufficient to provide for the unfunded past service cost, then the Company will commence to amortize the cost over a period not to exceed 20 years. Under the revised plan the Company's current service contribution is estimated to amount to $200,000 for 1969. Under the plan prior to revision the Company's current service contributions for the years 1964 to 1968 fluctuated between nil and $105,000.

10. DEPRECIATION

Depreciation provided in the accounts is as follows:

	Buildings and equipment	Equipment rented to customers
December 31, 1964	$ 364,000	$2,237,000*
December 31, 1965	513,000	3,184,000*
December 31, 1966	514,000	4,706,000
December 31, 1967	477,000	4,383,000
December 31, 1968	558,000	3,309,000
May 31, 1969	275,000	1,705,000

(*After restatement see Note 5)

11. CURRENCY CONVERSION

Included in accounts payable and accrued liabilities is U.S. $2,700,000 which has been converted to Canadian funds at a premium of 7⅞%.

12. STOCK OPTIONS

The Company has established an employee stock option plan pursuant to which options to purchase 97,200 Common Shares of the Company are reserved for issuance after the capital of the Company has been changed as described in

Note 5 to "Capitalization" on page 4, upon the exercise of stock options granted to bona fide full time officers and employees of the Company. The directors under the plan have authorized the granting to 17 employees of the Company of options to purchase 42,000 Common Shares. All the authorized options are to be exercisable at $12.75 per share, are to expire April 30, 1975 and are to be exercisable on a cumulative basis as to 20% thereof by each employee during each of the five consecutive 12 month periods commencing May 1, 1970. No option may be exercised prior to the end of six months following the authorization thereof. The options provide for their earlier termination in the event that the employment of the person to whom the option is granted ceased prior to the expiry date of the option.

13. INCOME TAX

The Company claims capital cost allowance on rented equipment which is in excess of depreciation provided in the accounts. This excess capital cost allowance results in a deferral of income tax the amount of which is shown in the balance sheet as "deferred income taxes." The provision for income taxes is considered adequate. The Company and subsidiary have been assessed up to and including the year ending December 31, 1967.

Auditors' Report

To the Directors,
FINNING TRACTOR & EQUIPMENT COMPANY LIMITED:

We have examined the consolidated balance sheet of Finning Tractor & Equipment Company Limited (a British Columbia company) and its subsidiary as of May 31, 1969, and consolidated statements of income and retained earnings for the five months ended May 31, 1969, and the five years ended December 31, 1968. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of income and retained earnings present fairly the financial position of Finning Tractor & Equipment Company Limited and subsidiary as of May 31, 1969, and the results of their operations for the five months ended May 31, 1969, and the five years ended December 31, 1968, in accordance with generally accepted accounting principles which, except for the change in accounting for service revenue in 1967 as indicated in Note 8 to the consolidated financial statements, were applied on a consistent basis during the periods after giving retroactive effect to the change, with which we concurred, in the method of providing for depreciation referred to in Note 5 to the consolidated financial statements.

With respect to the pro forma consolidated balance sheet as of May 31, 1969, we have reviewed the entries giving effect to the transactions described in Note 2 to the consolidated financial statements and, in our opinion, subject to the consummation of the proposed transactions, such entries have been properly applied to the actual consolidated balance sheet of Finning Tractor & Equipment Company Limited and subsidiary as of May 31, 1969, to reflect those transactions.

Vancouver, Canada,
September 10, 1969

(Signed) ARTHUR ANDERSEN & CO.,
Chartered Accountants

Certificates

Dated: September 10, 1969

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part VII of the Securities Act, 1967 (British Columbia) and the regulations thereunder, by Part 7 of The Securities Act, 1967 (Alberta) and the regulations thereunder, by Part VIII of The Securities Act, 1967 (Saskatchewan) and the regulations thereunder, by Part VII of The Securities Act, 1968 (Manitoba) and the regulations thereunder, by Part VII of The Securities Act, 1966 (Ontario) and the regulations thereunder, under the Securities Act (Quebec) and by Section 13 of the Securities Act (New Brunswick).

(Signed) W. M. YOUNG
President

(Signed) V. SOOD
Vice-President, Finance

On behalf of the Board of Directors

(Signed) R. E. LANE
Director

(Signed) J. D. FRAZEE
Director

Directors

(Signed) W. M. YOUNG

(Signed) R. E. LANE

(Signed) V. SOOD

(Signed) R. BISS

(Signed) J. D. FRAZEE

JAMES ROSS LEMESURIER

HAROLD CLARK BENTALL

by (Signed) WILLIAM MAURICE YOUNG
their attorney

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part VII of the Securities Act, 1967 (British Columbia) and the regulations thereunder, by Part 7 of The Securities Act, 1967 (Alberta) and the regulations thereunder, by Part VIII of the Securities Act, 1967 (Saskatchewan) and the regulations thereunder, by Part VII of The Securities Act, 1968 (Manitoba) and the regulations thereunder, by Part VII of The Securities Act, 1966 (Ontario) and the regulations thereunder, under the Securities Act (Quebec) and by Section 13 of the Securities Act (New Brunswick).

WOOD GUNDY SECURITIES LIMITED

By: (Signed) H. W. TINGLEY

PEMBERTON SECURITIES LIMITED

By: (Signed) J. G. CHASTON

The following includes the name of every person having an interest either directly or indirectly to the extent of not less than 5% in the capital of:

WOOD GUNDY SECURITIES LIMITED: C. L. Gundy, W. P. Wilder, J. N. Cole, E. S. Johnston, J. K. McCausland, P. J. Chadsey, J. R. LeMesurier, C. E. Medland and J. N. Abell; and

PEMBERTON SECURITIES LIMITED: Wm. E. Thomson, J. G. Chaston, J. E. Smart, I. C. Danvers, R. F. Hassen, W. R. Wyman, A. G. Osburn, G. B. Anderson and W. C. Eilers.

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FINNING'S ANNUAL MEETING

Vancouver, April 20 (1970) -- Finning Tractor & Equipment Co. Ltd. announced revenue of $78,583,909 and earnings of $2,772,442, or $1.43 a share, at its first annual meeting of shareholders since becoming a public company in September 1969.

These figures, for the year ended December 31, 1969, represent a 42 per cent increase in sales and a 53 per cent increase in net profit over 1968.

A quarterly dividend of 5 cents has been declared.

President of Finning, W. Maurice Young, reported to the annual meeting that, for the first quarter of 1970 and on the basis of preliminary figures, there has been a growth of both sales and profit over the same period in 1969.

He also announced the company is in the process of signing a contract with the Sicard Co. of Montreal to merchandise the products of the Dart Truck Division of Pacific Car and Foundry. These are primarily large off-highway trucks and rubber tired loaders for use in open pit mining, quarrying and coal hauling. They are larger than anything made by the Caterpillar Tractor Co.

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In 1969, forestry, mining and construction continued to rank as the company's three major markets, while oil and natural gas, materials handling, engine applications and other industrial markets maintained steady growth.

Caterpillar products continue to be Finning's major source of revenue and the year saw the establishment of a light industrial division for marketing the smaller models of Caterpillar earthmoving equipment and other allied machinery products.

Another new division was formed for the sale of Koehring excavating and forestry machinery and the Towmotor division expanded its sales lines with the addition of specialized materials handling equipment.

Finning service facilities are now available at 33 locations and last year, as part of a $2,000,000 expenditure on buildings and equipment, new depots were established at Mackenzie, to serve the integrated forestry operations developing at Lake Williston; at Natal, for the vast coal fields of the East Kootenays; and at Inuvik, Northwest Territories, for the oil finds of the Western Arctic.

Operations at Terrace have been enlarged and additional premises purchased in Prince George to meet increased demands from developing forest industry complexes; service trailers located at Houston, preliminary to the construction of a depot to service the integrated operations of Bulkley Valley Forest Industries.

Looking ahead, Maury Young feels the decline in construction will likely be offset by increased activity in mining and forestry.

"The clouds on the horizon", he said, "are the degree of labor unrest in the province. Already there has been some downturn of activity generated by the mere fact that labor and management negotiations this year appear to be so difficult. Any worsening of this situation could start to affect our results by the half-year.

"Although the economy of British Columbia is still relatively buoyant, we must realise we are not an economic island and our future is greatly affected by conditions which exist in the United States of America, Japan and other parts of the world trading community.

"Taking a dispassionate view of all the problems, we still believe that 1970 will be a reasonably good year."

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The annual meeting elected Thomas E. Ladner, Q.C. - partner in the Vancouver legal firm of Ladner, Downs, Ladner, Locke, Clarke and Lenox, to the board of directors.

Continuing as directors are H. Clark Bentall, president, Dominion Construction Co. Ltd., Vancouver; J. Ross LeMesurier, vice-president, Wood Gundy Securities Ltd., Toronto; and Finning executives: W. Maurice Young, president; Richard E. Lane, executive vice-president; Robert C. Biss, John D. Frazee, Vinod K. Sood, vice-presidents.

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